Our $18 Trillion Economy Requires a Large and Diverse U.S. Banking Industry

An $18 trillion economy must have a banking system large enough, diverse enough and integrated enough to meet the needs of local, regional and global businesses. A modern, dynamic economy can only exist if it is supported by an efficient banking and capital market. As the U.S. and global economies have grown larger and more complex, banks of all sizes have responded to meet changing customer financial needs and increasing global integration. The U.S. economy is the most dynamic economic power because it is supported by its premier global banking and financial sector.

Today, our diverse banking industry is made up of banks of all sizes and types, from small community banks, to community-based regional banks, to large money center and global banks. This depth and breadth is required to meet the broad array of financial needs of our communities and customers. It provides greater access to credit at lower borrowing costs and greater convenience to reliable affordable services. Without such a diverse banking system, businesses could not grow, could not sell locally and globally, and could not hire workers that produce and sell their products.

The U.S. financial services sector has been a leading driver of our country’s GDP, increasing in importance over time (i.e., its share of the total value of all goods and services produced). This reflects the increasingly complex needs of businesses for financial services and credit domestically and internationally.¹

Importantly, the contributions from financial services have offset much slower growing sectors such as retail trade and manufacturing. Without the contributions to GDP—including adding a trade surplus of over $66 billion from financial services exports—U.S. growth would be weaker and fewer jobs would be created. Thus, any policies that would prevent the U.S. from having banks of all sizes will have negative consequences, including the inability to provide needed credit and financial services to large employers and exporters and a diminished global leadership role in financial services.

¹ Former Federal Reserve Chairman Ben Bernanke explained the importance of financial services during a press conference: “The world is a lot more complicated. The world is a lot more international. You have large multinational firms that are connecting resources, savers and investors in different countries. There’s a lot more demand for risk sharing, for liquidity services and so on. So I think based on that and based on the innovations that information technology has created [for] lots of industries, you would expect financial services to be somewhat bigger.”
Small Banks Are Community Cornerstones

Small banks are the cornerstone of small towns and communities across the nation. Bank ownership is often local—giving the bank a huge stake in the success of the community. Because of their close interaction with their communities, these banks build lasting relationships often spanning generations. According to a study by the FDIC, “community banks hold the majority of banking deposits in U.S. rural and micropolitan counties, and there are more than 600 counties—or almost one out of every five U.S. counties—that have no physical banking offices except those operated by community banks.”²

Small banks often specialize in making loans to small businesses, fueling their local economy. The loans allow local businesses to expand and increase hiring. According to Federal Reserve Governor Lael Brainard, “[community banks] hold about 50 percent of outstanding small business loans at commercial banks, far in excess of their 20 percent share of commercial banking assets and deposits.” A recent study by the FDIC reported that community banks continue to be a disproportionately important lender to small businesses.³ These small loans added up to more than $376 billion in 2015.

Moreover, because of their unique understanding of the community, small banks are able to identify loan opportunities that other institutions may not be able to. This helps to ensure that maximum credit is available to all responsible borrowers, even if they don’t fit into traditional borrower criteria. Community banks now face greater challenges in meeting the needs of their communities due to new and expanding regulations, such as the Qualified Mortgage and Ability-to-Repay rules.

Small banks have a full understanding of what it is like to be a small business. The median sized bank has only 42 employees and $192 million in assets. This, of course, means that half the industry—more than 3,000 banks—are smaller with fewer resources. Nearly one quarter of all banks have fewer than 20 employees. As small businesses, banks support the local economy by both hiring employees and paying for services from other local businesses. Furthermore, banks are often the most active local businesses in their communities, providing money and personal time to local charities.

³ FDIC notes: “[Commercial real estate] lending exemplifies the type of local knowledge and local decision-making at which community banks excel. Not only is construction activity essential to economic activity and the quality of life in local communities, but community banks are very important providers of credit to the construction industry.”
Regional Banks Are Essential Financial Services Providers

Regional banks focus on traditional banking services: accepting deposits and making loans to consumers and small-to medium-sized businesses. Regional banks generally operate across multiple states and focus on specific regions of the country. They have many of the same advantages of small banks, but operate on a larger scale. They are trusted Main Street institutions, supporting billions of dollars of economic activity in local communities. In addition, some “specialized” banks are similar in size to regional banks but offer services to specific niche markets, such as providing trust and custodial services.

The regional focus of these banks means that they understand the needs and challenges faced by their particular region. The larger size and increased capital levels of these banks allow them to make larger loans, serving businesses with needs that uniquely match their resources and capacity. The wider area of coverage also positions regional banks well to help businesses looking to take the next step to grow and expand into new areas.

Regional banks contribute to local and regional economies in many ways, not the least of which is providing over 710,000 jobs—over a third of all bank employees. They hold over $5.0 trillion in deposits, providing all forms of electronic access plus more than 31,000 branches nationwide. They hold 30 percent of all small business loans, 46 percent of bank business loans and 55 percent of all loans to individuals.4

Like all banks, regional banks personally invest in their communities by contributing to local organizations and volunteering their time. For example, U.S. Bank contributed over $21 million in corporate contributions and nonprofit sponsorships, in addition to providing more than $23.5 million in grant funding during 2014.

Share of Loans Held in Portfolio

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<th>Large Banks</th>
<th>Regionals*</th>
<th>Community Banks</th>
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<tr>
<td>Total Loans</td>
<td>$3,092</td>
<td>$3,649</td>
<td>$2,044</td>
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<tr>
<td>Business</td>
<td>$675</td>
<td>$856</td>
<td>$302</td>
</tr>
<tr>
<td>Consumer</td>
<td>$542</td>
<td>$826</td>
<td>$115</td>
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Source: Federal Deposit Insurance Corporation.
* Banks with assets between $10 billion and $420 billion, data as of year end 2015.

4 These statistics are for banks with assets greater than $10 billion and less than $420 billion, excluding the banks of Goldman Sachs and Morgan Stanley which are included in the large bank group.
Large Banks Meet Scaled Needs For Domestic and Global Companies

Large banks provide all the deposit and loan products similar to those offered by other banks, offering products and services essential to customers of varying sizes both locally and globally. The 26 largest banks serve an estimated 70 million U.S. households, 85,000 small businesses, and more than 1,000 large corporate customers. Large banks are prolific lenders to individuals and businesses of all sizes, which support economic growth and job creation. Furthermore, their products and services provide an estimated $10 billion to $20 billion in direct value to customers annually. Large banks are, of course, large employers. The twelve largest banks in the United States employ over one million people.

Large banks serve all sectors of local, national and international economies, but are uniquely positioned to meet the credit needs of large employers and those that do business overseas. The wide array of services are critical as U.S. international trade (exports and imports) is three times greater than it was just two decades ago.

These large companies need services of a scale that can only be met by banks with a significant amount of capital and human resources. Some large companies have substantial credit needs—a billion dollar credit facility established by the end of the day is not uncommon—and depend on a wide array of products and services, including cash management, cross-border payments and settlement, international trade finance and the management of their interest rate, credit and foreign exchange risks. Multinational companies also need merger and acquisition advice and access to debt and equity markets throughout the world. These financial needs are not isolated, but span dozens of countries in which the large companies operate.

In supporting America’s globally active companies – which employ approximately 20 percent of private sector workers in the U.S.—large banks contribute directly to job creation. Tens of thousands of smaller companies all over the country supply products and services to these larger firms, thus helping stimulate even more jobs. Only large banking companies can meet the needs of large, global companies—in the sheer size of credits they can deliver, in the wide array of products and services they can provide and in their geographic reach. Regional and small banks often serve the financial needs of smaller suppliers and their employees. It is this interconnectivity of businesses of all sizes and types served by banks of all sizes and types that makes the U.S. banking system so unique and valuable.

5 The Clearing House, Understanding the Economics of Large Banks (New York: The Clearing House, 2011)
7 Bureau of Economic Analysis, Data on Activities of Multinational Enterprises (Washington: U.S. BEA, 2016)
As part of the financial services sector, banking adds significantly to U.S. exports—over $86 billion during the most recent four quarters according to the Bureau of Economic Analysis. They do this by providing a full range of financial services, such as providing credit, administering financial portfolios, acting as financial advisors and providing foreign exchange and custody services. The needs are large, as illustrated by the $5.3 trillion in daily foreign exchange turnover. The financial services sector is one of the few trade sectors that reduce our trade deficit. In fact, the financial services sector net trade surplus was $66 billion last year.

Large banks play a central role in the development of the payments and settlement system, and in protecting its integrity. This is a complicated and highly efficient network that stands behind the hundreds of billions of financial transactions that take place every day. We take for granted the significant investment in these systems that support families as they pay their bills and receive their salaries, as well as businesses that buy parts and products. The modern payments system would not operate without the role played by the largest U.S. banks to create and operate it and to develop the anti-fraud and cybersecurity countermeasures needed to protect customer accounts. Banks have incorporated the highest level of security among critical sectors and have become a role model sector for cooperation, effectiveness and security.

Large banks also are often on the cutting edge of technology that benefits all financial consumers. Their size and ability to deploy new systems—such as online and mobile banking—facilitates rapid adoption and the “network effects” that reduce costs to bank customers.

Banks also help state and local governments finance their operational needs with loans. For example, banks fund revenue-anticipation and tax-anticipation notes, finance any number of government purchases including police cars, fire engines or equipment to build roads, and provide a host of municipal advisory services. The largest four U.S. banks held over $59 billion in loans to states and other governments in 2015, more than a third of all such loans made during the year.

**In Conclusion**

The U.S. banking system is the premier global banking and financial sector. It has to be in order to finance the large domestic and global economy that we enjoy. Today, banks of all sizes—from the very largest to the smallest—work hand-in-hand with individuals, businesses and governments to meet their financial needs. It is an integrated, competitive, innovative sector that employs over 2 million workers and supports tens of millions more in jobs through lending to businesses large and small, local and global.

*No country in the world would consciously tear apart the financial heart of its economy.* Doing so would be a disaster from which it would be hard if not impossible to recover and would have significant consequences for all bank consumers and the U.S. economy.